The Effect of Earnings Aggressiveness, Income Smoothing, Earnings Transparency on Cost of Equity with Earnings Informativeness As Moderating For Companies Listed on Indonesia Stock Exchange During The Period 2011-2013.

Herry Sunarto
Trisakti University
Jakarta, Indonesia
herry_sunarto@yahoo.com

Etty Murwaningsari
Trisakti University
Jakarta, Indonesia
Etty_nasser@yahoo.com

Sekar Mayangsari
Trisakti University
Jakarta, Indonesia
sekar_mayangsari@yahoo.com

***Abstract*— This study aims to demonstrate empirically the effect of earnings aggressiveness, income smoothing, and earnings transparency on the cost of equity with earnings informativeness as moderating. The purpose of this research paper is to contribute an additional form of building knowledge about the cost of equity to provide empirical evidence that is more comprehensive in association with earnings aggressiveness, income smoothing, earnings transparency, and earnings informativeness.**

The test was conducted using secondary data from financial statement data. The data sample was taken from 209 entities listed on the Indonesia Stock Exchange unless the company was in addition to property and financial sector for the period 2011 to 2013 and was processed using multiple regression models.

The methodology of this research is quantitative with the aim to see whether there are any relationships between variables. The results show that earnings aggressiveness and income smoothing have positive influences on the cost of equity, while earning transparency has a negative result against the same variable. When earning informativeness, the moderating variable, is added to the three relationships, it brings in three different conclusions. First, the moderation weakens the positive relationship between earning aggressiveness and cost of equity. Second, the moderation strengthens the negative relationship between earnings transparency and cost of equity. And at last, the moderation does not have significance towards income smoothing and cost of equity.

Keywords: earnings aggressiveness, income smoothing, earnings transparency, the cost of equity, and earnings informativeness.

I. INTRODUCTION

Companies facing competitive business climate are demanded to become more creative and innovative to maintain the continuity of their business. Innovations can be done by making changes to the product or by launching new products or by expanding sources of business in order to increase market share and increase the company's revenue. Companies that want to be competitive and maintain the continuity of their business require additional capital. One of the alternatives is for the company to place its name in capital markets with the objective to obtain additional funds from investors and creditors whenever the company needs it [1]. Companies that are already listed on the capital market must pay attention to the cost of equity because its calculation is useful to produce the right investment decisions so that these investments generate returns that can improve the welfare of the stakeholders [2] .

After the financial crisis [the Dot-Com Bubble], the transparency and quality of corporate disclosures faced concern among members of the business community. According to the publicity of the World Bank and the Asian Wall Street Journal in 1999, companies listed on the Asian countries were still grappling with the problem of low transparency [3]. Indonesia, which faced financial crisis from mid-1998, was no exception. Straight-out financial transparency of companies listed on the Indonesian Stock Exchange (BEI) has become the focus of investors who are looking for increased transparency in accordance with international accounting standards.

This study focuses on accrual management, more specifically discretionary accruals. The discretionary policy is a policy management that is flexible in controlling the accounting numbers. Accrual discretion by management should be tied to the phenomenon of economic enterprises. For example, a company in the business sector which some of its accounts experiences an increase or decrease in the

DOI: 10.5176/2010-4804_4.4.392

provision for impairment of trade receivables are also likely to rise or drop in correspond to company's economic phenomenon. Meaning that if the condition of company's economic is down or its performance is down, it tends to increase the provision for impairment of trade receivables. So, if provision for impairment of trade receivables turns down then it is considered as a part of economic enterprises phenomenon. But sometimes management makes discretionary accruals that do not fit the economic enterprise.

The description above has provided the motivation why the study was conducted: first, there are still differences in the results of studies linking earnings in formativeness, aggressiveness earnings, income smoothing, and earnings transparency, as well as the cost of equity. Second, research on the transparency of income based on variety of sources in Indonesia have not been investigated, while there are research carried out by the transparency of the new earnings [4] and [5]. Third, reference [6] and [7] show that when managers do accrual accounting manipulations, it requires interpretation of the discretionary accruals that is useful to the users of financial statements. Reference [8] encourages that are selected managers' decisions to be taken in order to improve earnings informativeness accounting by using discretionary accruals. Earnings informativeness in this case acts as a moderating variable with the argument that the policy of discretionary accruals made by management brings two consequences. First, if the discretionary accrual brings earnings informativeness, it will increase this variable and thus gain more quality and make cost of equity low. Second, when the discretionary accrual does not bring earnings informativeness (uninformative earnings), it will reduce the using of moderator in the accrual policy, thereby increase the cost of equity. This research is aimed to contribute an additional form of building knowledge about the cost of equity in intention to provide empirical evidence that is more comprehensive in association with the earnings aggressiveness, income smoothing, earnings transparency, and earning informativeness, which refers to companies listed on the Indonesian Stock Exchange (BEI) and in line with the World Bank and the Asian Wall Street Journal publicity where Asian companies are still grappling with the problem of lack of information transparency [3].

Indonesia was included in countries facing monetary crisis in mid 1998. One of the reasons was because some companies did earnings management that failed to reflect real economic value of the company. By that reason, investors have been looking for companies listed in Indonesian Stock Exchange with international-standardized financial transparency.

The paper proceeds as follows. Section III describes the sample and variable measurement; Section IV provides evidence on the earning aggressiveness, income smoothing, and earnings transparency on the cost of equity and earnings informativeness as moderating. Section V conducts sensitivity analyses. Section VI is the conclusion of the paper.

II. RELATED LITERATURE AND HYPHOTESIS DEVELOPMENT

Earnings Aggressiveness is defined as a management action that has a tendency to defer acceleration of income and profit, which subsequently impacts earnings informativeness [9]. Earning aggressiveness is a management action related to earnings manipulation [10].

When a company is doing earning aggressiveness, book value and profit at present time are higher, but it makes profit forecast low and cost of capital (and or actual profit) increases. Earning aggressiveness policy can be done through discretionary accruals. A reason of doing accrual management is opportunistic behavior which relates to compensation.

Income smoothing is defined as an attempt from the management to reduce abnormal variations in earnings to the extent allowed under the principles of sound-accounting and the policy of the firm itself [11]. Income smoothing is a management policy that report smooth profits at all time. When accounting profits are reported in an artificial smooth way, the number fails to show the real economic performance therefore lowers earnings inforrnativeness.

Reference [12] defines earnings transparency as an extent to which financial reports reveal an underlying economic entity in a way that it is readily understandable by those using the financial reports. Financial reports do not reflect how good earnings transparency is in helping investor assessing implications of earnings valuations and changes. This measurement is based on relations among stock price, equity book value and earnings in clean-surplus valuation. The measurement specifically uses R^2 adjusted from annual cross section regression in earnings and its changes that are reflected in prices.

According to [13] and [14], earnings informativeness defines as the amount of information about future earnings or cash flows included in current period of stock return. Based on above definition, present stock returns contain information of future profit or cash flow –which means stock prices are closely related to profit. Stock price information relates positively and parallel with profit. Stock prices reflect market mechanism based on supply and demand. Stock prices show stock market appraisal toward the company competence in gaining profit from time to time, managing risk of profit continuance and some other factors. In general, market value is affected with internal and external factors. Internal factors arises from within the company and can be controlled by it, such as solvability, growth opportunity and profitability.

Earnings aggressiveness is also a management action related to earnings manipulation [10]. By increasing the accrual components and at the same time lowering the cost, profits are reported to be higher than the actual rate [15]. If companies do an appropriate counting, then the current-book value shows assets and a higher profit, but forecast earnings will be low and the cost of equity will be increased [16].

H1: Earnings aggressiveness generates a positive effect on the cost of equity.

When dividend yields are used as the basis for measuring the cost of equity, it can be presumed that the income smoothing has positive effect on the cost of equity. This is in line with research [17] which uses price-earnings growth that shows that earnings smoothing causes positive effects on the cost of equity, or, companies that tend to generate income smoothing will result in high cost of equity.

H2: Income smoothing creates positive effect on the cost of equity.

Companies that develop earnings transparency will be associated with a lower cost of equity because the transparency will mitigate the risk arising from information asymmetry and at the same time lowers the cost of equity. This comes as a result of commitment to improve the quality of financial statements, which mean the company's focus is on applying accounting standards [18] ;[19]; and [20].

H3: Earnings transparency negatively affects the cost of equity.

In line with research [21] which shows that an accrual responds positively with earnings informativeness, then it is expected that using earnings iinformativeness as moderation can weaken a connection between earnings aggressiveness and cost of equity. Companies which report earnings aggressiveness are expected to use earnings informativeness through discretionary accrual to lower cost of equity.

H4: Earnings informativeness weakens positive relation between earnings aggressiveness and cost of equity.

Research [17], which used price-earnings-growth approach, shows that income smoothing effects positively to cost of equity. Companies that try to report their earnings using false smooth are expected to be weakened through earnings informativeness in discretionary accrual which at the end will lower cost of equity.

H5: Earnings informativeness weakens positive relation between income smoothing and cost of equity.

Reference [23] reports that information asymmetry relates positively to cost of equity. If earnings transparency has negative connection with accounting information, it will also relates negatively to the cost of equity. Reference [17] shows negative relation in measurement between cost of equity and earnings transparency. Meanwhile, reference [5] reveals positive connection between earnings transparency and cost of equity. A web-based financial reporting [earning transparency] responds positively to earnings informativeness and therefore reduces information asymmetry.

H6: Earnings informativeness strengthens negative relation between earnings transparency and cost of equity.

III. RESEARCH DESIGN

Data Collection

The writer obtained all data from financial reports listed in Indonesia Stock Exchange (BEI) during 2011-2013 periods.

In this work the writer excluded companies that were in property, real estate and financial sectors. Since they had a different financial structure, the cost of equity cannot be comparable with other industries. The writer also excluded companies that reported their financial statements in currencies other than rupiah to avoid biased number. The work also evades data from companies that did not submit financial statements consecutively during 2011-2013. The final data input consisted of 209 firms and 627 firm-year observations in year 2011-2013. After sorted, the final data sample consisted of 440 firm-year observation.

Research Model

Research that is done towards predicted variables influence cost of equity in dividend-growth model.

Therefore analysis using interaction regression is formulated as:

Analysis without earnings informativeness as moderation:

$$BE\ PEG_{i,t} = \alpha_0 + \alpha_1 AL_{i,t} + \alpha_2 PL_{i,t} + \alpha_3 TL_{i,t} + \alpha_4 SIZE_{i,t} + \alpha_5 ROA_{i,t} + \alpha_6 LEV_{i,t} + \varepsilon_{i,t} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

Analysis with earnings informativeness as moderation:

$$BE\ PEG_{i,t} = \alpha_0 + \alpha_1 Al_{i,t} + \alpha_2 PL_{i,t} + \alpha_3 TL_{i,t} + \alpha_4\ KL_{i,t} + \alpha_5 AL_{i,t}{*}KL_{i,t} + \alpha_6 PL_{i,t}{*}KL_{i,t} + \alpha_7 TL_{i,t}{*}KL_{i,t} + \alpha_8 SIZE_{i,t} + \alpha_9 ROA_{i,t} + \alpha_{10} LEV_{i,t} + \varepsilon_{i,t} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

where:

BE PEG : Cost of equity using *Price Earning Growth Model* ;
KL : Earnings Informativeness;
AL : Earnings Aggressiveness;
PL : Income Smoothing;
TL : Earnings Trnsparency;
SIZE : Size of the company based on log assets;
ROA : Return on Asset; Nett Profit divided by Total asset.
LEV :Leverage; and
ε : *Error term*.
i : Company.
t : Year

Normality Test

The test is done by analyzing normal graph of probability plot. Besides using graph analysis, Skewness and Kurtosis tests are also used. The target value is to hit lower than the Critical Ration of 2,58 which means normal.

Multicollinearity Test

Variance Inflation Factor (VIF) is used to detect multicollinearity. If VIF results more than ten (10) means there might be multicollinearity among independent variables. In other words, regression model is stated to be free from multicollinearity if VIF scores less than 10.

Autocorrelation Test

The test to the third assumption in classic regression linier model is autocorrelation. Durbin-Watson test is used in this research to test the existence of autocorrelation. Numbers needed in the method are d_L, d_U, $4 - d_L$, and $4 - d_U$.

There is no autocorrelation if the value of *DW* is close to two (2) or is between d_U and $4 - d_U$; oppositely, autocorrelation happens if the value is close to zero (0); and negative autocorrelation happens if the value is close to four (4) . If *DW* value is between d_L and d_U or $4 - d_U$ and $4 - d_L$, it includes in *No-positive autocorrelation*, therefore it is decided as *No-decision* or *Zone of Indecision*. For analysis where *DW* value is in Zone of Indecision, a run test is needed to figure out if *DW* value tends to be auto or no-autocorrelation.

Measuring Variables

1. Earnings Informativeness

Discretionary accruals are used to measure earnings informativeness. This study uses cross-sectional model of modified Jones [24] and [6]; while discretionary accruals are shown in model [25]

$$Dac_{i,\,t} = (AC_{i,\,t} / Ta_{i,\,t-1}) - NAC_{i,\,t} \quad (1)$$

Where:
$AC_{i,\,t} / Ta_{i,\,t} = b0\ (1 / TA_{i,\,t-1}) + b1\ (\Delta SALES_{i,\,t} - \Delta AR_{i,\,t} / TA_{i,\,t-1}) + b2\ (PPE_{i,\,t} / TA_{i,\,t-1})$
$NaCi,\ t = b0\ (1 / Tai,\ t-1) + b1\ (\Delta SALES_{i,\,t} - \Delta AR_{i,\,t} / TA_{i,\,t-1}) + b2\ (PPE_{i,\,t} / TA_{i,\,t-1})$
AC = Accounting Accruals
TA = Total Assets
b0, b1, b2 = estimated slope coefficient
DAC = Discretionary Accruals
NAC = Non-discretionary Accruals

2. Earnings aggressiveness

Earnings aggressiveness is measured by the formula [22]:

$$Al_t = (\Delta CAt - \Delta CLt - \Delta CASHt + \Delta STDt - Dept. + \Delta TPt) / TA_t - 1 \quad (2)$$

where:
Al_t: Earnings aggressiveness period t;
ΔCa_t: Changes in Current Assets (Current assett - Current asset-1);
ΔCL: Change Current Liabilities excluding Short Term Debt (CLT - CLT-1);
$\Delta Cash_t$: Changes in Cash (Casht - Casht-1);
ΔSTD_t: Changes Short Term Debt (STDt - STDt-1);
Dept: Depreciation and Amortization period t;
ΔTP_t: Change Tax Payable (TPT - TPT-1);
Ta_t-1: Total Assets period t-1;

3. Earnings Smoothing

Income smoothing is measured with a formula according to [17] which is calculated as:

$$PL = \sigma\ (EARN/Asset_{t-1}) / \sigma\ (CFO/Asse_{t_{t-1}}) \quad (3)$$

Where:
PL : Income Smoothing;
Σ : Deviation Standard;
CFO : Cash Flow Operating;
EARN : Earnings (Net Income Before Extraordinary Items);

4. Earnings Transparency

Transparency is not mentioned as an explicit purpose in FASB or IASB, but [12] noted that the conceptual framework is produced by standard setters' perspective, both for "readily understandable" and "underlying economics "concepts.
Earnings transparency is measured by the formula [5]:

Calculating TRANSI:

$$RET_{i,\,j,\,t} = \alpha^I_0 + \alpha^I_1 E_{i,\,j,\,t} / P_{i,\,j,\,t-1} + \alpha^I_2 \Delta E_{i,\,j,\,t} / P_{i,\,j,\,t-1} + \varepsilon_{i,\,j,\,t} \quad (4)$$

Calculating TRANSIN:

$$RET_{i,\,p,\,t} = \alpha^{IN}_0 + \alpha^{IN}_1 E_{i,\,p,\,t} / P_{i,\,p,\,t-1} + \alpha^{IN}_2 \Delta E_{i,\,p,\,t} / P_{i,\,p,\,t-1} + \varepsilon_{i,\,p,\,t} \quad (5)$$

Transparency (TRANSi, t) is the sum of $TRANSI_{j,\,t}$ with $TRANSIN_{p,\,t}$
Calculating TRANSI in the fourth model to get R_2, this is estimated by the industry.
Calculating TRANSIN contained in the fifth model is to get the R_2 estimated by the portfolio. This portfolio is derived from the regression residuals industry [the first model] and then divided by 4 (four) portfolio each year.

Where:
j = industry
p = portfolio
RET = Annual Return is measured from the beginning after the company's fiscal financial year;
E = Earning / NIBE;
AE = Change Earnings / NIBE;
P = Price / Price beginning of the year;
ΔP = Change Price / Price;
A high regression of the return-earnings happens as an indication of earnings transparency's growth [5].

5. Cost of Equity

This study uses the formula based on Prices Earnings Growth Model [26] to measure the size of cost of equity.

$$BE\ PEG = \sqrt{P/E\ Ratio/Earnings\ Growth\ Rate} \quad (6)$$

Where:
BE PEG = Cost of Equity based on Price Earnings Growth Model, calculated by √Price Earnings [PE] ratio divided by the short-term earnings growth rate;

P/E Ratio = P_0/eps_1
Earnings Growth Rate = $100*(eps_2-eps_1)$
Eps = Earnings Per Share
P_0 = Prices Earnings.

6. Control variables:

Size is measured by the logarithm of total assets [17]. Performance is measured by Return on Assets (ROA) = net income divided by total assets [27]. And Leverage / Lev are measured by total debt divided by the book value of equity and book value of debt [28].

IV. EVIDENCE ON THE EARNINGS AGGRESSIVENESS, INCOME SMOOTHING, AND EARNINGS TRANSPARENCY ON THE COST OF EQUITY AND EARNINGS INFORMATIVENESS AS MODERATING

Descriptive Statistics

In statistic descriptive, research models are about relations among earnings aggressiveness, income smoothing and earnings transparency towards earnings informativeness as moderation. The samples are 209 entities of companies within three years: 2011, 2012 and 2013 which result in 627 observations. Number of samples decreased to 187 observations after the error normality test was conducted. This number is the outlier data which turns to 440 observations or 440/627= 70% from the total number of earlier observations. Descriptive statistic of the 440 observations is shown in Table 1 below.

Table 1
Descriptive statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
BEPEG	440	.01460	1.33250	.5710852	.31152012
AL	440	-.47660	6.24280	.0702107	.32748083
PL	440	.00040	37.82430	1.0795193	2.64182039
TL	440	.03779	.75092	.3079462	.17817481
KL	440	-2.23399	2.00397	-.1743677	.38787457
Size	440	9.26700	18.66720	14.0575343	1.61631433
ROA	440	-.75600	9.74300	.0871250	.48191481
LEV	440	.00000	4.93000	.8459545	1.00695757
Valid N (listwise)	440				

Table 1 shows the minimum and the maximum value of cost of equity. 1.5% and 133% present the amount of return the investor will get from their investments. 571% of mean value shows the average amount of return gained by the companies from their investments.

Earnings aggressiveness shows minimum value of -0.278 and maximum value of 6.243 with standard deviation of 0.510 [greater than mean value 0.899]. Greater value of deviation means the date points are higher than data value. 41% of the sampled companies show earnings aggressiveness because they have bigger standard deviation than the mean of 0.42.

Income smoothing shows -5.65 as minimum value and 0.58 as the maximum. The minimum value represents companies that perform income smoothing and the maximum value means the opposite. Standard deviation value [0.460] is higher than the mean with difference of 0.639. This indicates the sample do smooth earnings policy. The mean value -0.018 [or less than 1] indicates that most of the companies do income smoothing. It is supported by the data that shows that 118 companies have negative value of income smoothing while the value of the other 39 companies is higher than zero.

Earnings Transparency shows a minimum value of 0,038 and a maximum value of 0,751. Since minimum and maximum values are positive and the average value is 0.340 or 34% means most companies revealed the earnings transparency by showing industry specifications and portfolios that can explain the return / yield in the explanation of the company's profit. Positive and rising value of earnings transparency shows the increasing transparency in companies [5].

Earnings informativeness show the average value of -21.6%, which means companies sampled have high earnings informativeness. High number in earnings informativeness is used by investors to predict future earnings by combining the information from other sources e.g. stock prices.

Variable of size results in mean 15.13. This number shows that companies have big assets. The size number comes from logarithm from the total of companies' assets.

In ROA with a minimum value of 0,000 and a maximum of 1,000 means that there are companies that are not able to produce a sample of a profit or break even. While the maximum value of 1.000 means that there are some firms that have the ability to make a total profit. ROA value is averagely of 126%, means that on averagely companies have the ability to make a profit of 126% of the total assets employed.

The average leverage value is 58% means the firms have a debt ratio greater than the value of their equity.

Normality Test

.Normality test for research model before moderation using *Kolmogorov-Smirnov* test shows 0,084 which is bigger than 0,05. That means data distributes normally.
Research model after moderation conducted using the same test shows 0,154 –bigger than 0,05 which means the data spreads as usual.

Multicolleration Test

Research models prior moderation show the VIF values of the six variables are lower than 10 (VIF<10). Earnings aggressiveness results in 1,009 VIF value. And income smoothing results in 1,016 VIF value. While controlled variables result as follow: size 1,019; ROA 1,021; and Leverage 1,035. Based on the results of the test it is concluded that the six variables included in regression models are free from multicolleration issues.
The research model following moderation shows that the ten variables result in less than 10 VIF values. EA: 3,747; ES: 2,000; ET: 1,372; EI: 5,680; AL*KL: 3,951; PL*KL: 2,241;

TL*KL: 5,884; While controlled variables, those are: Size: 1,034; ROA: 1,028; and Leverage: 1,053.
Based on these test results we can conclude that the ten variables in regression models are free from multicolleration problem.

Autocorrelation Test

In research model before moderation, autocorrelation test – which is stated in Durbin-Watson value (DW)- resulted in 1,828. Therefore it can be concluded, with samples of 627 observations and six independent variables, dl= 1,707; du= 1,831; 4-dl= 2,293; 4-du= 2,169. Research model is showing 1,828 which is in no autocorrelation area.
Following the moderation, the autocorrelation test resulted in 1,798 DWstat. Therefore it can be concluded that with 627 observations using the ten independent variables result in: dl = 1,707; du= 1,831; 4-DL = 2,293; 4-DU = 2,169. So model with DWstat 1,798 is in no autocorrelation area.

TABLE 2
Result Before Moderation

BE PEG$_{i,t}$ = α_0 + α_1Al$_{i,t}$ + α_2PL$_{i,t}$ + α_3TL$_{i,t}$ + α_4SIZE$_{i,t}$ + α_5ROA$_{i,t}$ + α_6LEV$_{i,t}$+$\varepsilon_{i,t}$

Independent Variabel	Prediction	Cost of Equity Based on Price Earnings Growth		
		Unstandardized Coefficients β	t-statistic	Sig
Intercept	?	0,087	0,365	0,234
AL	+	0,123	1,499	0,002 ***
PL	+	0,010	0,968	0,027 **
TL	-	-0,276	-1,821	0,000 ***
Size	+	-0,048	-2859	0,000 ***
ROA	+	0,027	0,475	0,171
Lev	-	0,091	3,374	0,000 ***
Adj R^2		0,188		
F-Statistik		17,993		
Durbin Watson Stat		1,828		
Total Observasi		440		

*** Significance at the 1% level; ** Significance at the 5% level; * Significance at 10%
Note: BE PEG is the cost of equity based on Prices Earnings Growth Model which is calculated by √Price Earnings (PE) ratio divided by the short-term earnings growth rate. AL is earnings aggressiveness which is calculated by total accruals. PL is the income smoothing calculated by σ (EARN/Asset$_{t-1}$)/ σ (CFO/Asse$_{t-1}$). TL is the earnings transparency calculated from the sum (R2) industry transparency and (R2) the transparency of the portfolio. KL is calculated from the earnings informativeness using discretionary accrual. Size is calculated from the logarithm of total assets. Return on Assets ROA is calculated by net income divided by total assets. Lev is leverage calculated on the total book receivables divided by total equity and book value of debt.

TABLE 3
Result After Moderation

BE PEGi, t = α0 + α1Ali, t + α2PLi, t + α3TLi, t + α4KLi, t + α5ALi, t * KLI, t + α6PLi, t * KLI, t + α7TLi, t * KLI, t + α8SIZEi, t + α9ROAi, t + α10LEVi, t + εi, t

Independent Variabel	Prediction	Cost of Equity Based on Price Earnings Growth		
		Unstandardized Coefficients β	t-statistic	Sig
Intercept	?	0,083	0,344	0,246
AL	+	0,251	1,597	0,001 ***
PL	+	0,009	0.615	0,109
TL	-	-0,341	-1,951	0,000 ***
KL	-	-0,206	-1,257	0,006 ***
AL*KL	-	-0,212	-1,101	0,014 ***
PL*KL	-	-0,004	-0,193	0,350
TL*KL	+	0,401	0,967	0,027 **
Size	+	0,046	2,744	0,000 ***
ROA	+	0,023	0,408	0,208
Lev	-	-0,092	-3,376	0,000 ***
Adj R^2		1,198		
F-Statistik		11,870		
Durbin Watson Stat		1,798		
Total Observation		440		

*** Significance at the 1% level; ** Significance at the 5% level; * Significance at 10%
Note: BE PEG is the cost of equity-based Prices Earnings Growth Model which is calculated by √Price Earnings (PE) ratio divided by the short-term earnings growth rate. AL is earnings aggressiveness which is calculated by total accruals. PL is the income smoothing calculated by σ (EARN/Asset$_{t-1}$)/ σ (CFO/Asse$_{t-1}$). TL is the earnings transparency calculated from the sum (R2) industry transparency and (R2) the transparency of the portfolio. KL is calculated from the earnings informativeness using discretionary accrual. Size is calculated by the logarithm of total assets. Return on Assets ROA is calculated by net income divided by total assets. Lev is leverage calculated by the total book receivables divided by total equity and book value of debt.

The first R-Square model results in 0,200 coefficient and *F* = 17,993 (*sig*. 0,000). This means the first model fulfills goodness of fit in a level less than 1% -which is (0,000). Behavior or variation from independent variable is able to explain the same ones of the dependent as 20%. And the remainder 80% is explained by other variables that are not included in the model.
The second model shows that R-square generates coefficient 0,217 and *F* = 11,870. This means the second model also gives in the goodness of fit in a level less than 1% -which is 0,000. And behavior or variation from independent variable can describe the same things of the dependent as 21,7%. The rest of 78,3% is analyzed by other variables that are excluded from the model.

Hypothesis 1

The first hypothesis states that earnings aggressiveness generates a positive effect on the cost of equity. Test results in Table 2 show R2 18.8% with F-statistic 17,993. Earnings aggressiveness coefficient is 0.123, reflects significant positive profit at the level of 1% (t = 1.499; sig. 0.002). This indicates that a significant increase level point in earnings aggressiveness is associated with the increase in cost of equity. Statistics show that earnings aggressiveness influences investors in deciding policies.
With these test results, we can conclude that the results support the hypothesis that earnings aggressiveness effects positively on the cost of equity.

The results of this study also proves that reported earnings aggressiveness gives a negative signal to investors,

thus leading to increased of cost of equity. This is in accordance with the signal theory, that the market will provide a positive response to the policies that can enhance the value of the company [22].

Hypothesis 2

The second hypothesis states that income smoothing creates positive effect on the cost of equity. The test results in Table 2 shows R2 18.8% to 17.993 F-statistic. That 0,010 income smoothing coefficient marking positive at 5% level (t = 0.968; sig. 0.027) indicates that a significant level of 2.7 point rising in income smoothing associates with the increase in the cost of equity 0,010. Statistics show that income smoothing policy becomes a concern of investors in taking the decisions.

We can conclude that the results support the hypothesis that income smoothing effects positively on the cost of equity.

Income smoothing that correlates positively with the cost of equity is an indication that the management try to cover the variability in the underlying economic performance [19]. So it can be said that if the accounting profit is not smooth, the profit figures fail to represent the actual performance of the economy. In other words, this result means that the company doing earnings-smoothing policy will influence the response of investors (market) that is associated with the higher risk thus increasing the cost of equity.
This is consistent with research [22]; [17]; and [11].

Hypothesis 3

The third hypothesis states that earnings transparency negatively affects the cost of equity. The test results in Table 2 show R2 18.8% to 17.993 F-statistic. Earnings transparency coefficient is -0.276 with significant negative profit at the level of 1% (t = -1.821; sig. 0.000). This indicates that a level of 1 point increase in the earnings transparency is associated with a decrease in the cost of equity by -0.276. So it can be concluded that the test results support hypothesis 3 which says earnings transparency negatively affects the cost of equity.

Companies were observed to have a tendency of not doing earnings transparency because when it resulted in high, the profit would represent the amount of change in the economic value of the company, so information asymmetry [the agency conflict] between the managers and owners of companies / investors will raise [5]. Therefore, companies tend to make low earning transparency to give a negative signal to investors. In accordance with the signal theory, the market (investors) will respond if the manager can make earnings transparency policy which can increase the value of companies that will impact on the cost of equity [5]

Hypothesis 4

The fourth hypothesis states that earnings informativeness weakens the relationship between earnings aggressiveness and cost of equity. Table 3 shows R2 19.8% with the F-statistic 11.870. Earnings aggressiveness variable in the second model has a coefficient of 0.251 which is positive and significant. Earnings informativeness acts as moderating variable between earnings aggressiveness and the cost of equity. In this case resulting a negative coefficient of -0.212 and significant at 1% level; by t-test of -1.101 and a significance level of 0.014 (t = -1.101; sig 0.014). It indicates that earnings informativeness is valuable to investors.

Effect of earnings aggressiveness in the cost of equity differs between companies with high and low earnings informativeness. Companies that are high in earnings informativeness and have a raise in earnings aggressiveness by one point will relate to 0,039 decrease of cost of equity.
While companies with low earnings informativeness and having a one point increase in the earnings aggressiveness would be associated with a decrease in the cost of equity -0.212. Based on these test results, high earnings informativeness is able to maintain negative relationship between earnings aggressiveness and cost of equity.

When earnings informativeness is able to weaken the positive relationship between the earnings aggressiveness to the cost of equity, means the company does an earnings aggressiveness practice but has good earnings informativeness. Then the investor (market) responds to reduce the level of risk that decreases the cost of equity [22] and [29].

Hypothesis 5

The fifth hypothesis states that earnings informativeness weakens positive relation between income smoothing and cost of equity. Table 3 shows R2 19.8% with the F-statistic 11.870.
Income smoothing variable in the second model has a coefficient of 0.009, which means positive and significant. When earnings informativeness acts as moderating variable between income smoothing and the cost of equity, it results a coefficient of 0.004 and a negative, but not significant, by t-test of 0.193 and a significance level of 0.350 (t = 0.193; sig 0.350). This indicates that earnings informativeness is not valuable for investors. Based on these test results, the earnings informativeness is not able to moderate relation between incomes smoothing to the cost of equity.

The result to the fifth hypothesis mentions that earnings informativeness does not give significant moderation between income smoothing and cost of equity. The average value of income smoothing mounts to 1.079 so that a value above 1, meaning not smooth, is considered too high that is not able to be moderated by earnings informativeness using discretionary accruals measurement.

Earnings informativeness that cannot function as moderation between income smoothing and cost of equity is caused by information asymmetry. The information asymmetry happens when the management uses its private information in doing income smoothing policy through net-income-before-extraordinary-items (NIBE), which results in false value in non-economic income smoothing. On the other hand, according to agency theory, management is obliged to raise the value of the company. This study is in line with research [11] which states income smoothing that results are way above one or not smooth conclude in high cost of equity

that cannot be moderated by earnings informativeness through discretionary accrual.

Hypothesis 6

The sixth hypothesis states that earnings informativeness strengthens negative relation between earnings transparency and cost of equity. Table 3 shows R2 19.8% with the F-statistic 11.870. Earnings transparency variable in the second model has a coefficient of -0.341, which means negative and significant. Earnings informativeness acts as moderating variable in interaction between earnings transparency and the cost of equity has a negative coefficient of -0.401 and significant at the 5% level; by t-test of -0.967 and significance level of 0.027 (t = -0.967; sig 0.027), means that the earnings informativeness is valuable to investors.

Effects of earnings transparency to cost of equity for companies would differ depending on the level of earnings informativeness. Companies having high earnings informativeness with 2,7 points of raise in earnings transparency will experience -0,742 decrease of cost of equity. While companies having low earnings informativeness with the same points of raise in earnings transparency will experience -0,341 decrease of cost of equity. Based on those tests, earnings informativeness as moderating variable is able to strengthen negative relation between earnings transparency to cost of equity.

Earnings transparency that reflects changes of companies' economics can be understood by investors. This is in line with research [5] that says earnings transparency correlates negatively with cost of equity. And with earnings informativeness strengthen the negative relation, it is able to mitigate risks which at the end leads to reduced cost of equity. This means Indonesian stock market is leading to half-strong efficient market where investors respond more quickly to management policies –in this case: financial statements and other supplemental information, such as national financial regulation [30].

V. CONDUCT SENSITIVITY ANALYSES

Alternative Cost of Equity Models

The cost of equity for sensitivity analysis using the Dividend Growth Model [22] which is calculated by the formula:

BE DIVt = the current dividend yield x (1 + g) + g (1)

Where:

BE DIVt or re: The cost of equity-based Dividend Growth Model period t;

P0: The ex-dividend Current Market Price of a Share = (The Current Market Price per share x D0);

D0: The Current Dividend;

g: The Expected Future Dividend Growth Rate;

= ((D0 - D0-1) / D0-1);

The Current Dividend Yield = D0 / The Current Market Price per share.

In the measurement of Dividend Growth Model assuming the dividend growth rates follow a random walk, the cost of equity can be estimated using dividend yields because it has many advantages: it is able to observe, stable and stationary so that the accuracy of the changes in the cost of equity faced with the precision of a change of dividend yields will be confirmed positively. Loss is due to repurchase of stock and changes in the growth opportunities but it is not a problem in the growing market for repurchases is minor [22].

Alternative Income Smoothing Models

The income smoothing for sensitivity analysis using Norm Eckel [31] which is calculated by the formula :

(CVΔI / CVΔS) (2)

Where;

CV = coefficient of variation ;

ΔI = change in earnings (income) ; and

ΔS = change in sales.

TABLE 4
Result Before Moderation

BE $DIV_{i,t} = \alpha_0 + \alpha_1 Al_{i,t} + \alpha_2 PL_{i,t} + \alpha_3 TL_{i,t} + \alpha_4 SIZE_{i,t} + \alpha_5 ROA_{i,t} + \alpha_6 LEV_{i,t} + \varepsilon_{i,t}$

Independent Variabel	Prediction	Cost of Equity Based On Dividend Growth Model		
		Unstandardized Coefficients β	t-statistic	Sig
Intercept	*?*	0,494	0,274	0,293
AL	+	0,619	1,848	0,000 ***
PL	+	0,272	0,732	0,073 *
TL	-	-0,064	-0,065	0,449
Size	+	0,101	0,865	0,043 **
ROA	+	0,389	0,330	0,256
Lev	-	-0,360	-1,364	0,004 ***
Adj R^2		0,118		
F-Statistic		4,489		
Durbin Watson Stat		1,968		
Observation Total		157		

*** Significance at the 1% level ; ** Significance at the 5 % level ; * Significance at 10 %

Note: BE DIV is the cost of equity based on Dividend Growth Model which is calculated from the current dividend yield x (1 + g) + g . AL is earnings aggressiveness, calculated by total accruals. PL is the income smoothing, calculated by the coefficient of variation Δ profit divided by the coefficient of variation Δ sales. TL is the earnings transparency, calculated from the sum (R_2) industry transparency and (R_2) the earnings transparency of the portfolio . Size is calculated from the logarithm of total assets. Return on Assets ROA is calculated from net income divided by total assets. Lev is leverage calculated on the total book receivables divided by total equity and book value of debt.

TABLE 5
Result After Moderation

BE DIVi, t = α0 + α1Ali, t + α2PLi, t + α3TLi, t + α4KLi, t + α5ALi, t * KLI, t + α6PLi, t * KLI, t + α7TLi, t * KLI, t + α8SIZEi, t + α9ROAi, t + α10LEVi, t + εi, t

Independent Variabel	Prediction	Cost of Equity Based On Dividend Growth Model		
		Unstandardized Coefficients β	t-statistic	Sig
Intercept	?	0,560	0,318	0,264
AL	+	-1,111	-1,066	0,018 **
PL	+	0,252	0,705	0,081 *
TL	-	0,565	0,497	0,161
KL	-	-0,450	-0,374	0,228
AL*KL	+/-	0.108	1,725	0,001 ***
PL*KL	+/-	-6.438	-1,067	0,018 **
TL*KL	+/-	1,718	0,577	0,126
Size	+	0,097	0,851	0,046 **
ROA	+	0,061	0,053	0,458
Lev	-	-0,472	-1.735	0,001 ***
Adj R^2		0,185		
F-Statistic		4,534		
Durbin Watson Stat		2,012		
Observation Total		157		

*** Significance at the 1% level; ** Significance at the 5 % level; * Significance at 10 %

Note: BE DIV is the cost of equity based on Dividend Growth Model which is calculated from the current dividend yield x (1 + g) + g . AL is earnings aggressiveness, calculated by total accruals. PL is the income smoothing, calculated by coefficient of variation Δ profit divided by the coefficient of variation Δ sales. TL is the earnings transparency, calculated from the sum (R_2) industry transparency and (R_2) the earnings transparency of the portfolio . Size is calculated from the logarithm of total assets. Return on Assets ROA is calculated from net income divided by total assets. Lev is leverage, calculated on the total book receivables divided by total equity and book value of debt.

Hypothesis 1

The first hypothesis states that earnings aggressiveness has positive effect on the cost of equity. Test results contained in Table 4 show R_2 11.8% with the F-statistic 4.489. Earnings aggressiveness having coefficient of 0.619 and a significant positive at the level of 1% (t = 1.848; sig. 0.000) indicates that a significant level point increase in eanings aggressiveness is associated with the increase in cost of equity of 0.619. Statistics show that the earnings aggressiveness policy relates to investors in making the decisions. It is concluded that the earnings aggressiveness has significant positive effect on the cost of equity.

Hypothesis 2

The second hypothesis stated income smoothing has positive effect on the cost of equity. Test results contained in Table 4 shows R_2 of 11.8% with the F-statistic 4.489. Income smoothing having coefficient of 0.272 and a significant positive point at 10% (t = 0.732; sig. 0.073) indicates that a significant level of 7.3 point rising in income smoothing is associated with the increase in the cost of equity 0.272. Statistics show that income smoothing policy has become a concern of investors in making decisions. It is concluded that income smoothing has significant positive effect on the cost of equity.

Hypothesis 3

The third hypothesis states earnings transparency has negatively affect the cost of equity. The test results show that earnings transparency does not have a significant effect on the cost of equity. In table 4 shows regression coefficient on the earnings transparency variable -0.064 and statistically insignificant, amounting to 0.449 or less at the 5% significance level (t = -0.065; sig. 0.449). It can be concluded that the earnings transparency has not affected significantly to the cost of equity.

Hypothesis 4

The fourth hypothesis states that earnings informativeness weakens the relationship between the earnings aggressiveness and the cost of equity. Table 5 shows R_2 18.5% with 4,534 F-statistic. Earnings aggressiveness variable in the second model has a coefficient of -1.111 and significant interaction model variable. Earnings informativeness acting as moderating variable between earnings aggressiveness and the cost of equity has a positive coefficient of 2.108 and is significant at the 1% level; with t-stat of 1,725 and a significance level of 0.001 (t = 1.725; sig 0.001). This indicates that the earnings informativeness is valuable to investors.

Effects of earnings aggressiveness to cost of equity for companies would differ depending on the level of earnings informativeness. Companies that have a high profit level earnings informativeness having a significance one point increase in the earnings aggressiveness will relate to -1.003 (-1.111 coefficient reduced coefficient of 0.108) reduction in the cost of equity. While in companies with low earnings informativeness, having an increase by one point in the earnings aggressiveness would be associated with a decrease -1.111 in the cost of equity. Based on these test results, earnings informativeness as a moderating variable has weakened the positive relationship between the earnings aggressiveness to the cost of equity.

Hypothesis 5

The fifth hypothesis states that earnings informativeness weakens the relationship between income smoothing and the cost of equity. Table 5 shows that the earnings informativeness acting as the moderating variable between income smoothing and the cost of equity has a positive coefficient of -6.438 and significant at the level of 5%; by t-test of -1.067 and a significance level of 0.005 (t = 1.725; sig 0.018). This indicates that the earnings informativeness is valuable to investors.

Effect of income smoothing of the cost of equity would differ depending on the level of earnings informativeness. Companies that with high earnings informativeness with a significance level of 1.8 points increase in income smoothing will relate to -6.690 (-6.438 coefficient reduced coefficient 0.252) reduction in the cost of equity. While companies that have low earnings informativeness with the significance level of 1.8 points rise in income smoothing will be related to 0.252 increases in the cost of equity. Based on these test results, high earnings informativeness as a moderating variable has able to weaken the positive relationship between income smoothing and the cost of equity, so the fifth hypothesis are accepted.

Hypothesis 6

The sixth hypothesis states that earnings informativeness has strengthen negative link between earnings transparency and the cost of equity. Table 5 shows earnings transparency variable in the second model has a coefficient of 0.565 but not significant in the interaction model variables with t-stat equal to 0.577 and a significance level of over 10 % (t = 0.577 ; sig 0.126). This means earnings informativeness is not worthy for

investors. Based on these test results, eanings informativeness as a moderating variable is not able to strengthen the relation between earnings transparency to the cost of equity.

VI. CONCLUSION

Earnings aggressiveness has a positive effect on the cost of equity. This result means that companies tend to report earnings policy too aggressively, which makes the market interpret a high risk therefore increase cost of equity, this is parallel to research [22]; [17]; and [29].

Income smoothing has positive effect on the cost of equity. This result means that the company pursuing a policy of smoothing earnings will influence the response of investors [market] that is associated with the higher risk thus increasing the cost of equity. This is consistent with research [22]; [17]; and [11].

Earnings transparency affects negatively to cost of equity. This means companies doing earnings transparency policy –which reflects changes in companies' economic condition- can be understood or well responded by investors. Since investors consider a high risk to companies' cash flow in the future, it will reduce cost of equity [5].

Earnings informativeness is able to weaken positive relation between earnings aggressiveness and cost of equity. This means that companies reporting good earnings informativeness is appreciated by investors by reducing risk level, therefore cost of equity is decreased [22] and [29].

Earnings informativeness is not able to weaken positive relation between income smoothing and cost of equity. This happens when management of companies does income smoothing policy using companies' non-economic factors that investors and stakeholders are not aware of, thus creates agency conflicts. In the contrary, reliable earnings informativeness brings reduction in cost of equity because investors consider risks can be mitigated. This interpretation is in line with research [11] and [29].

Convincing earnings informativeness strengthens relation between earnings transparency and cost of equity. This means earningd transparency policy can be responded by investors even though earnings informativeness is high, thus brings significant change in cost of equity. This result is aligned with research [5].

The research implication is for the market to use accrual as a signal to decide required of return. This means management needs to observe accounting policy to show quality information –which focus on minimalizing accrual abnormal component. Therefore management shows company policies that focus on corporate's economic phenomena to increase company's value.

Another implication is for investors to respond accrual component empirically. In order to achieve this, accounting standard boards need to consider accounting policy that minimalize abnormal accrual potential. Hence decisions taken by academics or professionals should base on prudence principle.

Research limitation defines as measuring the cost of equity using random walk assumption. This means the measurement need market price which change independently and is not affected by other prices and that the price moves in an unplanned order, thus today's price is unaffected by the previous figure. This happens because the price set today depends on new information entering and accepted by the market.

In the future research, the analyst may consider other variable measurement such as income smoothing to changing correlation measurement in discretionary accrual and in pre-discretionary accrual [11]; earnings informativeness to Future Earnings Response Coefficient/ FERC; and cost of equity to Capital Asset Pricing Model/ CAPM. Also, the analyst may examine variables used in the research, such as Corporate Social Responsibility and Corporate Good Governance to see collaborative administration which affects financial statement disclosure.

Besides, it is suggested to the analyst to examine cross country units, such as ASEAN, to compare how investors respond to global risk.

REFERENCES

[1] A. Keown, Manajemen Keuangan: Prinsip dan Penerapan, Jakarta: Salemba Emppat, 2002.

[2] F. Modigliani and M. Miller, "The Cost of Capital, Corporation Finance, and The Theory of Investment," *American Economic Review*, vol. 48, pp. 433-443, 1958.

[3] L. Yu-Chih, "The Relationship Between Information Transparency And The Informativeness of Accounting Earnings," *The Journal of Applied Business Research*, vol. 23, no. 3, 2007.

[4] M. Barth, Y. Koncthitchki and W. Landsman, "Financial Reporting Transparency," *Journal of Accounting, Auditing, and Finance*, vol. 23, pp. 173-190, 2008.

[5] M. Barth, Y. Konchitchki and W. Landsman, "Cost of Capital and Earnings Transparency," *Journal of Accounting and Economics*, vol. 55, pp. 206-224, 2013.

[6] K. Subramanyam, "The Pricing of Discretionary Accruals," *Journal of Accounting and Economics*, vol. 22, pp. 249-281, 1996.

[7] E. Kasanen, J. Kinnunen and J. Niskanen, "Dividend-Based Earnings Management: Evidence From Finland," *Journal of Accounting and Economics*, 1996.

[8] V. Bernard and K. Skinner, "What Motivates Managers' Choice of Discretionary Accruals?," *Journal of Accounting and Economics*, vol. 22, pp. 313-325, 1996.

[9] J. Altamuro, L. Anne and W. Joseph, "The Effects of Accelerated Revenue Recognition on Earnings Management and Earnings Informativeness: Evidence From SEC Staff Accounting Bulletin No.101," *The Accounting Review*, vol. 80, no. 2, pp. 373-401, 2005.

[10] J. Bedard and K. Johnstone, "Earnings Manipulation Risk, Corporate Governance Risk, and Auditors' Planning and Pricing Decisions," *The Accounting Review*, vol. 79, no. 2, pp. 277-304, 2004.

[11] Z. Tucker and P. Zarowin, "Does Income Smoothing Improve Earnings Informativeness," *The Accounting Review*, vol. 81, no. 1, pp. 251-270, 2006.

[12] M. Barth and K. Schipper, "Financial Reporting Transparency," *Journal of Accounting, Auditing & Finance*, vol. 23, pp. 173-190, 2008.

[13] A. Tudor, "A Matter of Institutional Characteristics or Accounting Standards," Master Thesis, 2009.

[14] P. Zarowin, "Does Income Smoothing Make Stock Prices More Informative?," New York University Stern School od Business, New York, 2002.

[15] K. Chan, L. Chan, N. Jekadesh and J. Lakonishok, "Earnings Quality and Stock Returns.," National Bureau of Economic Research [NBER], 2001.

[16] S. Kothari, "Capital Market Research in Accounting," *Journal of Accounting & Economics*, vol. 31, pp. 105-231, 2001.

[17] J. Francis, R. LaFond, P. Olsson and K. Schipper, "Costs of Equity and Earnings Attributes," *The Accounting Review*, vol. 79, no. 4, pp. 967-1010, 2004.

[18] C. Leuz and R. Verrecchia, "The Economic Consequences of Increased Disclosure," *Journal of Accounting Research*, vol. 38, pp. 91-124, 2000.

[19] C. Leuz, D. Nanda and P. Wysocki, "Investor Protection and Earnings Management: An International Comparison," *Journal of Financial Economics*, vol. 69, 2003.

[20] H. Daske, L. Leuz and R. Verdi, "Mandatory IFRS reporting Around The World Early Evidence On The Economic Consequences," *Journal of Accounting Research*, vol. 46, pp. 1085-1142, 2008.

[21] P. Dechow, R. Sloan and A. Sweeney, "Detecting Earnings Management," *The Accounting Review*, vol. 70, pp. 193-225, 1995.

[22] Bhattacharya, U. Daouk and M. Welker, "The World Price of Earnings Opacity," *The Accounting Review*, vol. 78, no. 3, pp. 641-678, 2003.

[23] D. Diamond and R. Verrechia, "Dsiclosure, Liquidity, and The Cost of Capital," *Journal of Finance*, vol. 46, pp. 1325-1359, 1991.

[24] M. DeFond and J. Jiambalvo, "Debt Covenant Violation And Manipulation of Accruals: Accounting choice in Troubled Companies," *Journal of Accounting And Economic*, vol. 17, pp. 145-146, 1994.

[25] M. Firth and P. Rui, "Ownership, Board Structure, and The Informativeness of Earnings-Evidence from an Emerging Market," *SSRN*, 2006.

[26] Easton and S. Monahan, "An Evaluation of Accounting-Based Measures of Expected Returns," *The Accounting Review*, vol. 80, no. 2, pp. 501-538, 2005.

[27] J. Francis, D. Nanda and P. Olsson, "Voluntary Disclosure, Earnings Quality, and Cost of Capital," *Journal of Accounting Research*, vol. 46, pp. 53-99, 2008.

[28] H. Ben-Nasr and A. Al-Dakheel, "The Impact of Earnings Quality on The Cost Of Equity: Evidence From Privatized Firms," *International Journal of Financial Research*, vol. 6, no. 1, 2015.

[29] U. Wiwik, "Pengaruh Manajemen Laba Terhadap Biaya Modal Ekuitas [Studi Pada Perusahaan Publik Sektor Manufaktur]," *Jurnal Riset Akuntansi*, 2006.

[30] E. F. Fama, "Efficient market: A Review Of Theory And Empirical Work," *Journal Of Finance*, vol. 25, no. 2, pp. 383-417, 1970.

[31] N. Eckel, "The Income Smoothing Hypotheses Revisited," *Abacus*, pp. 28-40, 1981.

Authors' Profile

Herry Sunarto, a lecturer and a partner of accountant public firm and a lawyer in advocacy office in Jakarta, Indonesia. He earned his Doctor in Accounting from Faculty of Economic and Business from Trisakti University Indonesia in 2016, Master of Management majoring in Financial Management from Gadjah Mada University Indonesia in 1999, and Bachelor degree in Accounting from UPI YAI Indonesia in 1995. He has registered in Public Accountant from Indonesia Capital Market and Financial Institutions Supervisory Agency [OJK], Chartered Accountant [CA], Management Accountant registered, Indonesian Tax Consultant and Tax Lawyer registered in The Indonesian Tax Court, and advocates registered. He has written articles published in the journal.

Prof. Dr. Etty Murwaningsari, Ak, MM, CA, a full professor and Vice Dean of Academic at the Faculty of Economics, Trisakti University. She earned her Doctor in Accounting from Faculty of Economic University of Indonesia [FEUI] in 2011, Master of Management majoring in Financial Management from Trisakti University in 1995, and Bachelor degree in Accounting from University Airlangga, Surabaya in 1981. She has written articles published in several journals, and her research has been presented in several conferences such as American Accounting Association [AAA] Annual Meeting in Washington D.C, USA [2012], and in Denver, Colorado, USA [2011], Asian Pacific Conference on International Accounting in Gold Coast, Australia [2010] and in Las Vegas, Nevada, USA [2009].

Dr. Sekar Mayangsari, Ak, Msi, CA, a lecturerand a researcher at the Faculty of Economics, Trisakti University. She earned her Doctor in Accounting from Faculty of Economic University of Gadjah Mada in 2005, Master of Accounting from from Faculty of Economic University of Gadjah Mada in 2005, and Bachelor degree in Accounting from University Airlangga, Surabaya in 1991. She has written articles published in several journals, and her research has been presented in several conferences such as EUROCK, Poland [2013], Global Conference on Business and Finance in Hawaii, USA [2014], Asia Pacific Accounting Symposium in Hawaii, USA [2012] and Asian Pacific Accounting Conference in Beijing, China [2011].